STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	
Petition for approval of delivery services tariffs and tariff revisions and of residential delivery services implementation plan, and for approval of certain other amendments and additions to its rates, terms, and conditions.	: : : : :	No. 01-0423

Surrebuttal Testimony of

DAVID R. HELWIG, P.E.

Executive Vice President
Energy Operations

Commonwealth Edison Company

ComEd Exhibit 43.0

Q. Please state your name.

A. David R. Helwig.

Q. Have you previously testified in this proceeding?

A. Yes. I submitted rebuttal testimony on behalf of Commonwealth Edison Company ("ComEd").

Q. What is the purpose of your surrebuttal testimony?

A. In my rebuttal testimony, I explained how ComEd's total rate base and expenses affect its revenue requirement and why, even if ComEd in the future were able to substantially reduce its expenses and its level of annual capital investment, the requested revenue requirement remains just and reasonable, and may indeed understate ComEd's costs. "Government and Consumer" witness David Effron and, to a lesser extent, Staff witness Bruce Larson raise questions about this conclusion. I will respond, and explain why my conclusions remain undeniably correct.

I also testified in rebuttal (ComEd Ex. 19.0, lines 81-91) that:

> Becoming a more reliable distribution company has cost ComEd money, both in terms of distribution capital investments and in terms of distribution O&M expenses. Most of these additional costs have been, and will be, borne by ComEd's shareholders. The shareholders have borne virtually all of these additional costs to date, given that bundled rates are frozen based on a 1994 test year. Because of the rate freeze, customers who remain on bundled service will not begin to pay their share of any additional costs for reliability expenditures before January 1, 2005. In addition, regardless of the Commission action in this case, shareholders will continue to bear all of the incremental expenses incurred in 1998 and 1999, including the costs of repairing the facilities that failed during the events of 1999, as well as the expenses of planning, operating, and maintaining a more reliable system in 1999 and 2000.

Mr. Larson and Mr. Bodmer question this testimony. While this issue is principally addressed by Ms. Juracek, I will briefly answer some of Mr. Larson's questions and point out the errors in Mr. Bodmer's conclusions.

ComEd's Proposed Distribution
<u>Revenue Requirement is Reasonable</u>

Q. On pages two through six of Mr. Effron's rebuttal testimony, he discusses the "Revenue Requirement Effect of Plant Additions". Mr. Effron states "this analysis so far ignores any additional revenue that will be produced by growth in billing determinants" (GC Ex. 5.0, page 4, lines 19-20). Please respond.

A. I understand that the analysis referred to by Mr. Effron is the analysis on pages 9-11 of my rebuttal testimony and in ComEd Exhibits 19.1 and 19.2 attached thereto[†]. Mr. Effron's comments are both logically flawed and are based on unwarranted and unsupported assumptions.

Q. What is the first analytical flaw in Mr. Effron's comments?

A. Mr. Effron misses the point of the analysis. The first point I made was this: ComEd can substantially reduce both its annual capital investment and its annual O&M costs and still have a revenue requirement equal to or greater to the one it is proposing here. The notion that ComEd will automatically be over-recovering because O&M expense or capital investment may decline in the future is simply false. That notion is false whether billing determinants go up, go down, or are unchanged. Billing determinants do not change the revenue requirement.

[†] ComEd also produced workpapers, numbered AC 0001185 - 0001189, relating to this analysis in response to ARES data request 8.05, but they are not mentioned by Mr. Effron.

Mr. Effron also misses the second point of my analysis: capital investment is reflected in the revenue requirement in a very different way than are annual expenses. If a capital investment is used and useful, its reasonable and prudent cost should be included in rate base.

Q. What is the second flaw in Mr. Effron's comments?

A. Mr. Effron's comment assumes a model of ratemaking which is not correct. His comments invite the Commission to consider speculative growth in sales, while ignoring both possible losses in sales and growth in unit costs. In fact, ComEd's proposed rates are based on a historical test year, adjusted in limited circumstances only where those adjustments are specifically warranted and supported. There is always a risk that billing determinants will change over the life of a set of rates, just as there is a risk that the unit costs of the utility will change. Those risks and benefits are borne by the utility, subject to the establishment of new rates set if the existing ones drift too far out of line. (While I am not an expert on its workings, I understand that ComEd is also currently subject to a statutory earnings cap). ComEd is not required to try to estimate the future trajectory of the economy or its customers' purchases over the life of the rates.

In this case, as I said, ComEd has proposed a revenue requirement based on a 2000 test year. Because annual capital investment is outstripping depreciation, that proposed revenue requirement is conservative, regardless of any speculation about future unit sales or future units costs.

Q. Are there any other faults in Mr. Effron's comments?

A. Yes, several. His comments are factually unsupported. There is no reason to assume that ComEd will experience growth in delivery services revenues due to "billing determinant growth." In this particular case, future growth in billing determinants is very difficult to predict accurately, and by nature is speculative at best. Moreover, the impact of any such growth on ComEd's revenue is even more speculative given that the rates under discussion are optional, and interact with the CTC. Additionally, Mr. Effron ignores the fact that many of the circumstances that would tend to increase billing determinants will also increase costs (e.g., rapid growth in newly developing areas).

Moreover, there could potentially be either a net growth or a decline in ComEd's revenues due to changes in billing determinants in the years going forward. While the Company can benefit from an increase in revenue it also takes the risk of a decrease in billing determinants. Given the economic situation the country faces, the answer to this question is uncertain.

Finally, ComEd is committed to major capital investments regardless of whether there is a growth in billing determinants. These capital investments are essential to maintain a proper level of reliability and service to ComEd's customers. These capital investments will result in additional expenditures for ComEd in the years going forward irrespective of whether there is a growth in billing determinants.

Q. Mr. Effron reviews the years since the revenue requirement approved by the Commission in Docket No. 99-0117 and states that there is an implied "growth in billing determinants of 7.9%". (GC Ex 5.0, page 5, lines 11-12). Does this statement accurately foreshadow billing determinants growth over the upcoming three year period?

A. No. Past billing determinants growth is not a good indicator of future billing determinants growth. The past three years have been a period of rapid economic growth, combined with rapid load growth on ComEd's system. To assume or imply that these three years will in any way reflect billing determinants growth in the next three or four years is incorrect. As I testified above, it is not inconceivable that billing determinants will decrease. With the current uncertain economic situation, it becomes increasingly difficult to predict future load and sales growth, let alone future delivery services revenue growth.

Q. Please expand on your statement that ComEd is committed to major capital investments with or without billing determinants growth.

A. ComEd will continue to make major capital investments to deliver an adequate and desired level of reliability and service to its customers. This is irrespective of whether there is a growth or a decline in billing determinants. The many reasons ComEd will need to make these investments include: 1) to maintain the current functioning of the distribution system, 2) to continue to improve the reliability and flexibility of the distribution system, and 3) to add new customer connections to the system. (These and other drivers are inter-related; it is not possible to precisely quantify the relative significance of each driver.) ComEd is planning major capital investments in the City of Chicago through its "Chicago Optimization Plan". These are large expenditures and are expected to extend out to at least 2005. The key driver of this program is to increase the reliability and flexibility of the system in the Chicago region. Whether billing determinants growth occurs or not, ComEd will be making significant capital investments to ensure that an adequate level of service is provided to the current customer base.

Q. Mr. Effron states "Mr. Helwig's analysis is incomplete and ignores the fact that the establishment of delivery service revenue requirements is not an end in itself, but rather a means to determine rates for delivery service." (GC Ex. 5.0, page 2, lines 8-11) Is Mr. Effron's critique valid?

A. No. His observation actually supports my point. My analysis refutes the notion that ComEd's rates should be artificially and unfairly depressed because of false assumptions about how a reduction in annual capital investment or annual O&M expense would affect its revenue requirement. In fact, my analysis proved that future capital investments, which are significantly greater than the projected depreciation expense for those years, will lead to a growth in ComEd's net rate base. The analysis was not an attempt to calculate or project future delivery services rates, or to seek rates based on anything other than the adjusted 2000 test year. If billing determinants do change so much that the rates we set here are wrong -- in either direction -- that can and will be addressed in a future rate case.

Q. Does Mr. Effron make any other errors?

A. Yes. He misstates ComEd's level of capital investment. That flaw is discussed in greater detail in the surrebuttal testimony of Mr. Phil Voltz, ComEd Ex. 46.0.

Q. In Mr. Larson's rebuttal testimony he cites budget information from ComEd's reliability report. He continues to state "starting in 2002, ComEd's expenditures on new plant will be below the requested depreciation expense." (Staff Ex. 23.0, page 5, lines 104-105). Is this correct?

A. No. The investment data reported in ComEd's 2000 Electric Power Delivery Reliability Report refers to only a subset of distribution capital expenses. Forecasted expenditures are stated for specific work categories. Adding these numbers up does not produce a total and comprehensive 2001, 2002, or 2003 capital expenditure budget. For example, adding up these numbers for the year 2001 produces a capital "budget number" of just $394.2 million for ComEd. This is well below the level of 2001 investment; indeed, it is below the year to date September 2001 capital expenditure of $643 million. The final projected total 2001 capital expenditure for ComEd Energy Delivery is $865 million.

Q. Have you prepared an update of the schedules attached to your rebuttal testimony to reflect this updated 2001 capital expense level?

A. Yes. This update is attached hereto as ComEd Exhibits 43.1 and 43.2. ComEd could, based on the revised 2001 capital numbers, reduce its jurisdictional O&M expenses by up to $40 million in 2001 and still have aggregate jurisdictional delivery services costs equal to or greater than the proposed revenue requirement (all other things being equal). Additionally, based on expected capital investment in 2002, ComEd could reduce annual distribution O&M expenses by more than $98 million compared to adjusted year 2000 levels and still have aggregate costs greater than the test year revenue requirement.

Q. Last, Mr. Larson quotes portions of a statement that you made to the Commission on April 18, 2001 and concludes that your statement "…appears to be tacit admission that some money was not well spent" or that "efficiencies suffered." (Larson Reb., Staff Ex. 23.0, lines 206-218). Is Mr. Larson's interpretation correct?

A. No. Starting in the summer of 1999, ComEd turned around a problem situation efficiently and effectively. As I said in my rebuttal testimony, we identified what we had to do, and we did it well. And, we will continue doing the things required to maintain and improve reliability.

As other witnesses discuss in more detail, the ***assumption*** that our 2000 test year costs were greatly inflated as a result of our actions turned out to be incorrect. The management restructuring Mr. Larson notes brought new efficiencies, as well as new working relationships. The new capital projects were well designed and implemented at reasonable and prudent cost. Our new O&M work practices are consistent with the maintenance of and continued improvement in the reliability of the system. But, with the exception of a few cases where our analysis showed test year costs were increased by past errors -- costs which ComEd excluded from the revenue requirement -- nothing I have said suggests that costs were excessive or efforts wasted.

ComEd's Reliability Improvement Expenses
<u>Largely Have Been, and Will Be, Borne by Shareholders</u>

Q. Mr. Larson's rebuttal testimony (Larson Reb., Staff Ex. 23.0, lines 17-22) opens with the following statement:

> The above mentioned rebuttal testimony [of Messrs. Helwig, DeCampli, and Voltz, and Dr. Williams] makes it clear that ComEd is denying that their delivery system was broken, as became apparent back in July and August of 1999, and ComEd further refuses to recognize that the actions it under took to fix and improve that system over the last two years were monumental but rather instead suggest that it was nothing more than normal. It is regrettable that the culture of denial still pervades ComEd.

Please respond to Mr. Larson's conclusions.

A. Mr. Larson's conclusions regarding my rebuttal testimony and that of my colleagues are not accurate. None of us deny or trivialize the seriousness of the reliability problems ComEd faced, nor do we claim that the changes we undertook were not "monumental." What we challenge is, first, that in undertaking the required construction and capital improvement projects in 1999 and 2000, we spent more on those rate base additions than was prudent. We likewise challenge the notion that the expenses ComEd incurred in the year 2000 (with limited exceptions, where adjustments have already been made) were above those associated with the level of operations, maintenance, and customer service that ComEd will, as a reliable distribution utility, provide.

Q. Mr. Larson also comments on testimony by Mr. DeCampli and yourself that capacity problems were "in part caused by unanticipated levels of load growth." Please respond.

A. Mr. Larson appears to have misread or misunderstood the discussion of unanticipated load growth. First, as will be discussed in more detail in the testimony of Mr. DeCampli, there was unanticipated load growth, especially in load areas that required heavier investment. Mr. Larson focuses on system load growth.

More importantly, however, the thrust of Mr. Larson's testimony appears to be that ComEd should have made major distribution capacity additions to address load growth sooner. He does not criticize the investments ComEd made, or argue that ComEd responded in 1999 and 2000 to the actual load growth imprudently. Had we anticipated this load growth -- whether or not we should have -- ComEd would have made the same capacity additions and they would be in rate base, just as they are proposed to be included in rate base now.

Q. Mr. Larson also comments on your observation that shareholders have borne almost all of the costs of reliability improvements and suggests several other factors that should, in his view, be included in the analysis. Please respond.

A. Mr. Larson identifies a number of costs and economic factors that have changed over time. But, with respect, none of these factors affect my point. Incremental reliability expenses cannot be passed through to bundled customers and most unbundled customer classes and groups have any increase in the delivery services rates offset by reductions in the CTC. I was not commenting on whether or not it was fair, just that it is true: ComEd's shareholders have borne, and will continue to bear, almost all of the costs of reliability improvements.

Q. Mr. Bodmer (GC Ex. 4.0, lines 350-371) takes issue with your conclusion on the basis of his calculation of the theoretical return on an investment in ComEd. It there any validity to Mr. Bodmer's conclusion?

A. None. Entirely aside from Mr. Bodmer's attempt to calculate a "return on investment" in ComEd stock, the argument he makes is simply irrelevant. I made no argument that ComEd shareholders have unfairly suffered, whether or not they have. The point I made is this: the increased costs of distribution reliability have not and will not, with very few exceptions, result in higher total payments by customers to ComEd. Whatever calculated rate of return Mr. Bodmer can concoct, it has nothing whatsoever to do with that point. Indeed, Mr. Bodmer admits this in response to the very next question, when he argues that changes in the delivery services rate will not affect cash flow assuming probable levels of market value. (Bodmer Reb., GC Ex. 4.0, lines 372-394).

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.